TAXATION OF CORPORATIONS.

"Besides real estate taxes corporations should pay in taxes only the fair value of the franchises they obtain from the people." This statement is the fourth plank of the platform of the New York Tax Reform Association. If it asserts a truth the conditions of today demand that it shall be vigorously defended. On every hand there is an outcry against corporations and the legislatures of most of the States are busy devising new ways of imposing taxes upon corporate enterprise. There are two reasons for this attack on corporations; one is practical and the other is sentimental. The practical reason is that the property of corporations is more easily reached and valued than the property of individuals. The sentimental reason is that few apparently dare to say a good word for corporations, *per se,* when they are under fire.

The managers of certain kinds of corporations are to a great extent responsible for the popular antagonism to corporations. They themselves, who really know better or are criminally ignorant if they do not know better, ask for all corporations a lightening of the burdens of taxation without regard to the character of the corporations.

Corporations, as a matter of fact, are not all of one kind, but they may and should be divided broadly into two great classes; corporations engaged in performing public services which are dependent for their existence upon the delegation of the power of eminent domain by the State, and corporations engaged in a competitive business, which can be and is carried on by individuals and which requires no special privilege of any kind.

The public service corporations are often undertaxed, are frequently accused and sometimes proven guilty of corrupting legislatures and common councils. Corporations of the second class are nearly always overtaxed, and whenever they can be truthfully accused of interfering with legislation it is only because they have been attacked and are fighting for their lives.

Public service corporations rarely pay taxes on the fair value of the franchise they obtain from the people, even when the taxes imposed upon their personal property and improvements are added to

the taxes upon their franchises. The feeling against all corporations is largely due to the misdeeds of the public service corporations and to the attempt of their managers to confuse the issue in the public mind by classing all corporations together.

Every public service corporation should be required to pay taxes upon the value of its real property. The value of the real property used by a public service corporation is greater than the value of similar real property used for private purposes because of the peculiar use to which the property may lawfully be put. Where the corporation uses land of which it does not own the fee as in the case of street railways, telegraph, and gas companies, the right to use the street is a real property right and so defined by the law of New York. Such taxes are a benefit to the public both as a contribution to the revenue of the State and because the heavier is the burden upon the opportunity to do business the more energetic must be the effort to provide good service. On the other hand, such corporations should not pay taxes upon their improvements and personal property such as cars, wires, pipes and the like, for these taxes all tend to discourage the giving of the best service and so operate to the disadvantage of the public. A good example of a bad tax upon a street railway is that which is so common, a license tax upon each car used. This tax obviously tends to induce the corporation to restrict the number of cars, thereby crowding the cars in use.

The best method of assessing public service corporations is to treat their property as a unit and to value them as going concerns. By this system a corporation has but one authority with which to deal, the amount of the assessment may be readily ascertained by anyone and the justice of the tax determined. Where for assessment purposes the railroad or its property is cut into sections and assessed in every town through which it passes, the corporation is burdened with unnecessary detail, there is more opportunity for corruption and fraud, and the facts in the case are concealed from the public. The result is usually under-assessment with but little profit to the corporation because of the means to which it often resorts to secure what it may consider fair treatment.

Corporations employed in competitive business may be divided for convenience into financial, mercantile and manufacturing corporations, and the financial corporations may again be classified as banking and insurance corporations.

The financial corporations seem to be specially marked for slaughter by the law makers, for what reason it would be hard

to say, unless it is that they have accumulated great property and furnish a rich mine to be worked to support the State. The same argument for the exemption of the personal property and franchise applies to all competitive corporations, and broadly speaking it is that competition will cause charges to be so reduced that the public will reap the benefit of any such exemption. At the same time the functions which these corporations perform are so different that there are special reasons for exemption applicable to each.

Banking corporations are perhaps the most important labor saving invention of modern times. They make possible a diversity of production and an exchange of products which were not dreamed of before banks were invented. It has been stated and it is probably true that by means of banks 95 per cent of the business of the country is transacted without the use of money, and this is true in spite of the fact that all sorts of obstacles, including enormous tax burdens, obstruct the industry of banking. An illustration of what happens when a town is deprived of banking facilities was presented in a small town in Connecticut frequented by summer boarders. The nearest bank was nine miles distant. The proprietors of hotels and boarding houses preferred to have bills paid in currency because they in turn were obliged to pay their bills in currency. At one time there had been a bank in the town but it failed. There was plenty of business there for a branch bank to live and make money, if it were not burdened with taxes. There was not business enough for an independent bank to earn a living and pay about one-third of its profits in taxes. It is probably safe to say that ten times as much currency was habitually used in that town as would have been necessary had there been a bank in the place.

There is frequent and bitter complaint of the inelasticity of our currency system and of the dearth of currency at places where it is much needed. How can it be otherwise when good sized towns are transacting their business after the fashion of three hundred years ago?

Until a recent change for the better in the State of New York it was not uncommon for country banks to pay in taxes from one-half to one-third of all their earnings. The State of New York was no exception. In some States the conditions are worse. No matter what improvements may be made in our currency we cannot expect to be free from the evils which follow currency stringency until we encourage banking by leaving it free from tax burdens which it is not adapted to bear.

Insurance companies are practically mutual benefit associations by which men agree if property is destroyed to contribute proportionately of their property to make good tne loss, or to provide for the families of deceased members. Property insurance maintains intact the sources from which all taxes must be paid. If the property is taxed, a tax upon the insurance company is merely an added burden indirectly imposed upon the property. If the property is of such kind that it must be taxed at all it would be fairer and straighter to tax the property itself. If the insurance company is a mutual company the burden falls directly upon the members proportionately. If the insurance company is organized for private profit the tax must be added to the premiums to enable the company to do business. Through the competition of many companies doing the same business the exemption from taxation must result in a reduction of the premiums by at least the entire amount of the tax.

A tax upon life insurance companies, aside from economic reasons, is opposed to public policy, for it decreases the power of an important agency to protect the public from the burden of caring for the destitute. A tax imposed upon the power to provide for the survivors of bread winners is a tax imposed upon the savings of those bread winners during their lives. Life insurance companies are by no means free from blame in this matter. They too often use their gigantic financial powers in ways that are devious and dark instead of resorting to the great political power that they could wield by laying the facts before their policy holders and urging them to appropriate political action in the open.

The taxation of insurance companies of all kinds is commonly in the form of a percentage of the premiums collected upon business within the state. In the State of New York this tax is generally one per cent. and this represents the actual sum of money paid by the insured to the state but is by no means the full extent of the burden imposed upon them. Insurance companies often do business in many states and are put to serious expense to keep track of the tax laws in all these states. Many of the states now have retaliatory provisions in their tax laws by which if any insurance company of their creation is taxed more heavily in a foreign state than the tax imposed by it upon foreign companies a tax equal to that imposed by the foreign state is immediately imposed on corporations created by such foreign state. On several occasions these retaliatory laws have been very severe in their effect. By reason of local laws in the State of New York some insurance companies are required to pay two per cent of their gross premiums and

some even three per cent. This is a heavy increase to the cost of insurance.

Manufacturing corporations are practically all employed in competitive business and any tax upon their materials or machinery must increase the cost of production and be added to the price of the goods they produce. A tax upon goods always falls disproportionately upon consumers. Upon the poor it is a burden grievous to be borne; upon the rich it is scarcely felt. When goods are increased in cost by taxes, the amount which can be sold is reduced and this re-acts upon the workers, lessening the demand for labor and tending to reduce wages.

Mercantile corporations are practically in the same case as manufacturing corporations. They are engaged in competitive business and the tax upon their capital must be recovered in the increased cost of goods.

Local taxes upon the personal property of manufacturing and mercantile corporations are generally much heavier than the state tax upon the privilege of doing business as a corporation and generally fall with greater weight upon corporations than upon individuals. In the State of New York there is no listing system established by law for individuals or corporations, but in practice corporations are commonly assessed on the full nominal value of their capital stock and in order to obtain a reduction of assessment are required to make out under oath a list of their property. The local tax is generally heavier on corporations than on individuals because corporations more frequently do business in several states and pay a tax upon all their personal property at their home office in the state in which they are incorporated. In addition they are required to pay in several States in which they do business a tax on the personal property actually situated within those States. This results in the taxation of the same property in the same year by two or more states. Again some States are still so uncivilized that they tax the evidence of the ownership of an interest in the corporation by taxing the shares of stock in the hands of stock holders. This is naturally a great discouragement to corporate business.

The policy of imposing franchise taxes, so called, upon manufacturing and mercantile corporations varies so much in the different states that there is frequently double taxation of the same subject. The State of New Jersey for example imposes an annual franchise tax upon corporations of its own creation, measuring the tax by the entire authorized capital without regard to its location. The State of New York imposes an annual franchise tax upon that

part of the capital stock which is represented by the proportion of capital employed in the State of New York. Some states pursue the New York policy and some the New Jersey policy with the result that a corporation may pay upon its entire capital in New Jersey or elsewhere and pay again upon that part of its capital employed in some other States. The whole system of endeavoring to derive revenue from a tax upon the privilege of doing business as a corporation is inherently vicious and the evil is intensified by this diversity of policy. There is no excuse for a tax greater than may be necessary to pay the clerical expense of such supervisions as may be desirable for the protection of stock holders.

It is obvious that the argument for the exemption of the plants of manufacturing corporations and the goods of mercantile corporations applies with equal force to those enterprises which are carried on by individuals, and there is no ground for imposing any heavier burden upon a corporation than upon an individual doing the same business. The corporation has no advantage not open to the individual to secure. There is no exclusive privilege. The corporation has the advantage of continuous life, and its stock holders have the advantage of freedom from personal liability beyond their actual investment. This advantage, however, can be secured by all individuals on the same terms. If corporations are bad in themselves they should not be created. If, on the other hand, the power given by corporate organization to combine the small capital of many persons for one common enterprise is a device of great advantage and increases enormously the productive power of the world this advantage should not by any means be minimized, as it may be, by imposing special taxes upon business when conducted by a corporation.

Anything is to be feared that destroys free competition, and the greatest foe of free competition is monopoly. But monopoly may be obtained by individuals as well as corporations. Natural monopoly wherever it is found, either in the case of the great monopoly of land owning, open to individuals and corporations alike, or in the case of the natural monopoly of transportation of passengers and goods or transmission of messages should be paid for and the price should be what the monopoly is worth. If monoply is adequately taxed little need will be found for the imposition of burdens upon industry and commerce.

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